

# REPORT OF MARKET REGULATION EXAMINATION



## **CUNA Mutual Insurance Society**

NAIC Code 62626

5910 Mineral Point Road  
Madison, WI 53705

## **NAIC Examination Tracking System ME116-M1**

### **Examination Period:**

**June 1, 2008 through June 30, 2010**

Pursuant to Title 24-A M.R.S.A. § 221, I have caused a Targeted Market Conduct Examination to be conducted of CUNA Mutual Insurance Society. I hereby accept this Report of Examination and make it an official record of the Bureau of Insurance.

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Mila Kofman  
Superintendent of Insurance  
Maine Bureau of Insurance

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Date

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May 13, 2011

The Honorable Mila Kofman  
Superintendent of Insurance  
Bureau of Insurance  
34 State House Station  
Augusta, ME 04333-0034

Dear Superintendent Kofman:

Pursuant to Title 24-A M.R.S.A. §§ 211 and 221 and in accordance with your instructions, a targeted market conduct examination has been made of:

CUNA Mutual Insurance Society

(hereinafter referred to as the "Company").

This examination reviewed the Company's Maine credit disability product line for its operations/management, complaints, marketing and sales, and claims. The examination covered the period from June 1, 2008 through June 30, 2010. The Maine Bureau of Insurance ("Bureau") staff conducted the on-site phase of the examination, from December 6, 2010 through December 10, 2010, at the Company's offices located at:

5910 Mineral Point Road  
Madison, WI 53705

The examination work was also performed at the Bureau. The examination is as of June 30, 2010.

The following report is respectfully submitted.

## **EXECUTIVE SUMMARY**

The Bureau conducted a Targeted Market Conduct Examination of the Company examining the following functional areas: Company Operations and Management, Complaints, Marketing and Sales, and Claims to determine compliance with Maine statutes, the National Association of Insurance Commissioners' ("NAIC") Market Regulation Handbook Standards, and the Company's procedures.

The examination results, obtained through transactional testing of selected claims, showed that the Company is in substantial compliance with all tested criteria.

## **HISTORY**

The Company is a mutual life insurance company and as such is controlled by its policy owners. The Company is duly authorized and licensed to sell life and health insurance in all 50 states, the District of Columbia, and in foreign countries.

In 1990, The Company and CUNA Mutual Life Insurance Company ("CMLIC"), formerly an Iowa mutual life insurance company with life and health and accident authority, entered into an Agreement of Permanent Affiliation. The affiliation helped both companies expand market share and gain efficiencies through shared operations. As a result of the affiliation, the two companies had identical Boards of Directors and senior management, and their operations and liabilities were largely shared.

The Boards of Directors of the Company and CMLIC approved the merging of the two companies. Policyholders of the Company and policyholders of CMLIC approved merging the two entities on April 20, 2007 and August 2, 2007, respectively. The Company was domiciled in Wisconsin until May 3, 2007, when it redomesticated to Iowa. The Iowa Division of Insurance announced its approval of the merger on September 06, 2007. Effective December 31, 2007, CMLIC merged with and into the Company.

The Company is the parent company for an extensive holding company system that includes life and health insurers, property and casualty insurers, and non-insurance operating companies. The subsidiary companies engage in diverse insurance, financial, and management product and services businesses serving various credit union industry market segments. Ownership and control of the Company is vested in the Company's policyholders, who are comprised primarily of credit union institutions and individual members of credit unions.

## **SCOPE**

This examination is a Targeted Market Conduct Examination. The purpose of this targeted examination is to review general business practices with Company operations/management, complaint handling, marketing and sales, and claims practices for the credit disability product line from June 1, 2008 through June 30, 2010. Transactional testing was used to detect compliance with or deficiencies in adherence to applicable claim handling statutes. This report is by test rather than by exception. That is, each test applied is stated and the results are reported.

The examination was conducted in accordance with 24-A M.R.S.A. § 221 and the NAIC Market Regulation Handbook for purposes of sample determination and overall guidance.

Some unacceptable or non-compliant practices may not have been discovered in the course of this examination. Failure to identify or criticize specific practices does not constitute acceptance of such practices by the Bureau.

## **METHODOLOGY**

The Bureau's staff examined the Company's operations/management, complaint handling, marketing and sales, and claims practices for the credit disability product line from June 1, 2008 through June 30, 2010.

The Audit Command Language ("ACL") audit software was utilized for this examination to attain the claims sample. The ACL software was applied to computer data files provided the Company which contained 715 credit disability product line denied/closed without payment claims that were initiated/opened during the period from June 1, 2008 through June 30, 2010. The sample of 60 claim files produces results at a 95 percent confidence level.

## **FINDINGS**

### **Standard A-2**

The regulated entity has appropriate controls, safeguards and procedures for protecting the integrity of computer information.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 2*

*Testing Procedure:* Examiners reviewed the Company's Record Control and Back-up Procedures.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

### **Standard A-3**

The regulated entity has antifraud initiatives in place that are reasonably calculated to detect, prosecute and prevent fraudulent insurance acts.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 3*  
24-A M.R.S.A. § 2186

*Transactional Testing Procedure:* Examiners reviewed the Company’s Fraud Prevention Plan and claim forms.

*Findings:* Of the sixty denied/closed without payment claims reviewed, eighteen applications/enrollments forms did not contain the antifraud language required by § 2186 (3), which results in 70 percent compliance with the above standard. The error rate is at 30 percent.

Of the sixty denied/closed without payment claims reviewed, all of the claim forms contain the antifraud language required by § 2186 (3), which results in 100 percent compliance with the above standard.

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**Standard A-4**

The regulated entity has a valid disaster recovery plan.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 4*

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*Testing Procedure:* Examiners reviewed the Company’s Disaster Recovery Plan.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

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**Standard A-5**

Contracts between the regulated entity and entities assuming a business function or acting on behalf of the regulated entity, such as, but not limited to, managing general agents (“MGAs”), general agents (“Gas”), third-party administrators (“TPAs”) and management agreements, must comply with applicable licensing requirements, statutes, rules and regulations.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 5*

24-A M.R.S.A. § 1420

24-A M.R.S.A. § 1445

24-A M.R.S.A. § 1902

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*Testing Procedure:* Examiners reviewed a contract between the Company and the TPA that had been engaged to provide certain claims adjudication services on the Company’s behalf.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

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**Standard A-7**

Records are adequate, accessible, consistent and orderly and comply with state record retention requirements.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 7*

24-A M.R.S.A. § 3410

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*Testing Procedure:* Examiners reviewed the Company's Records Retention Schedule.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

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**Standard A-9**

The regulated entity cooperates on a timely basis with examiners performing the examinations.

*NAIC Market Regulation Handbook - Chapter XVI, Section A, Standard 9*

24-A M.R.S.A. § 223

24-A M.R.S.A. § 220

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*Findings:* The Company cooperated on a timely basis with Bureau staff performing the examination.

**B. COMPLAINT HANDLING STANDARDS**

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**Standard B-1**

All complaints are recorded in the required format on the regulated entity's complaint register.

*NAIC Market Regulation Handbook - Chapter XVI, Section B, Standard 1*

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*Transactional Testing Procedure:* Examiners reviewed the Company's Complaint Handling Procedures and Complaint Register.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

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**Standard B-4**

The time frame within which the regulated entity responds to complaints is in accordance with applicable statute and regulations.

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*NAIC Market Regulation Handbook - Chapter XVI, Section B, Standard 4*

24-A M.R.S.A. § 220

24-A M.R.S.A. § 223

*Transactional Testing Procedure:* Examiners reviewed the Company's Complaint Handling Procedures and Complaint Register.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

## **C. MARKETING AND SALES**

### **Standard C-1**

All advertising and sales materials are in compliance with applicable statutes, rules and regulations.

*NAIC Market Regulation Handbook - Chapter XVI, Section C, Standard 1*

24-A M.R.S.A. § 2153

24-A M.R.S.A. § 2154

*Transactional Testing Procedure:* Examiners reviewed the Company's policy language and selected items of the Company's advertising materials.

*Findings:* The examination revealed documentation adequate to demonstrate compliance with statutes and/or regulations.

## **D. CLAIMS**

### **Standard D-1**

The initial contact by the regulated entity with the claimant is within the required time frame.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 1*

24-A M.R.S.A. § 2164

*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, two claims appear to be non-compliant, which results in 97 percent compliance with the above standard.



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**Standard D-2**

Timely Investigations are conducted.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 2*  
24-A M.R.S.A. § 2164-D

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*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, one claim appears to be non-compliant, which results in 98 percent compliance with the above standard.

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**Standard D-3**

Claims are resolved in a timely manner.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 3*  
24-A M.R.S.A. § 2164-D

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*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, one claim appears to be non-compliant, which results in 98 percent compliance with the above standard.

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**Standard D-4**

The regulated entity responds to claims correspondence in a timely manner.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 4*  
24-A M.R.S.A. § 2164-D

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*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, one claim appears to be non-compliant, which results in 98 percent compliance with the above standard.

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**Standard D-5**

Claim files are adequately documented.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 5*

24-A M.R.S.A. § 2164-D

24-A M.R.S.A. § 2862

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*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, one claim appears to be non-compliant, which results in 98 percent compliance with the above standard.

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**Standard D-9**

Denied and closed without payment claims are handled in accordance with policy provisions and state law.

*NAIC Market Regulation Handbook - Chapter XVI, Section G, Standard 9*

24-A M.R.S.A. § 2164-D

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*Transactional Testing Procedure:* Examiners reviewed the Company's claim files.

*Findings:* Of the sixty denied/closed without payment claims reviewed, two claims appear to be non-compliant which results in 97 percent compliance with the above standard.

**ACKNOWLEDGMENT**

The courtesy, hospitality, and cooperation extended by the officers and employees of the Company during the course of the examination are gratefully acknowledged. The examination was conducted and is respectfully submitted by the undersigned.

STATE OF MAINE

COUNTY OF KENNEBEC, SS

Mary Masi, MCM, Examiner in Charge, being duly sworn according to law, deposes and says that in accordance with the authority vested in her by Mila Kofman, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination on the condition and affairs of the

CUNA Mutual Insurance Society

as of June 30, 2010, and that the foregoing report of examination, subscribed to by her, is true to the best of her knowledge and belief.

The following examiners from the Bureau assisted:

Allan C. Armstrong, CWCLA, MCM  
Meredith P. Turney, MCM

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Mary Masi, MCM  
Senior Market Conduct Examiner

Subscribed and sworn to before me

Date to be included on Final Report

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Karma Lombard, Notary Public

My commission expires:

## **ADDENDUM**

As to Standard A-3, for which there was a finding of a 30% error rate, the Company has provided the following response:

“The draft report includes a finding that 18 applications/enrollment forms did not contain antifraud language as required. Upon review of the scope of the examination, it is our understanding that the enrollment process and enrollment forms were outside the scope of the examination and therefore we question whether the finding should be included in the final report. That said, the Company has reviewed its enrollment forms and has initiated the process to re-file the appropriate forms to ensure approved forms include the proper fraud disclosure. Thus, although we believe the finding is technically outside the scope of the examination, we are taking corrective action.”